

VZCZCXRO4826
PP RUEHLMC
DE RUEHJA #1295/01 2170247
ZNR UUUUU ZZH
P 050247Z AUG 09
FM AMEMBASSY JAKARTA
TO RUEHC/SECSTATE WASHDC PRIORITY 2995
INFO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHLMC/MILLENNIUM CHALLENGE CORP PRIORITY 0134
RUEAIIA/CIA WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 JAKARTA 001295

SENSITIVE
SIPDIS

DEPT FOR EAP/MTS, E, AND EEB/IFD
TREASURY FOR TRINA RAND
MCC FOR ISMAIL

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [PTER](#) [ID](#)
SUBJECT: YUDHOYONO'S 2010 BUDGET PROPOSAL: MAINTAINING A
STEADY COURSE

¶1. (SBU) Summary: Indonesian President Yudhoyono ("SBY") presented a 2010 budget bill aimed at maintaining a steady course. SBY highlighted Indonesia's success in weathering the current global downturn, building a stronger, more self-reliant domestic economy and taking a place at the G-20 table. The budget bill reflects his "Continue!" campaign theme, with no significant course changes. Key priorities include economic growth and people's welfare, equitable development, clean governance, and bureaucratic and educational reform. The bill proposes a budget deficit equal to 1.6 percent of GDP and a modest fiscal stimulus to counter effects of the global economic downturn. A proposal to increase defense spending by about IDR 7 trillion (USD 700 million) was the most notable addition. Market analysts welcomed the budget bill's shrinking public debt-to-GDP ratio, decreased dependence on external financing and plans to develop needed infrastructure. End summary.

... STRONGER POSTURE, MORE SELF-CONFIDENT ...

¶2. (SBU) President Yudhoyono presented his budget proposal to Parliament in an extraordinary plenary session on August ¶3. SBY spoke before a nearly full chamber, with 467 of 550 members of the lower house in attendance. Presentation of the budget bill, typically included in the State of the Nation address (scheduled for August 14), was moved up so that the current Parliament can complete deliberations before its session ends September 30. SBY highlighted his government's achievements in reducing poverty and unemployment and countered campaign criticism of higher government debt levels by stressing his government's success in significantly reducing government debt as a share of GDP (from 57 percent in 2004 to a planned 30 percent in 2010).

¶3. (SBU) The audience responded with enthusiastic applause to several points in Yudhoyono's speech. Legislators were happy to hear his announcement that Indonesia has the third highest economic growth rate after China and India and had recorded its lowest inflation rate since 2000 (with inflation of 2.71 percent year-on-year through July 2009). They also responded positively when he proposed a 5 percent increase in civil service basic salaries and pensions and recommended a moratorium on further creation of new regions. Strong applause welcomed his statement that the government would not seek IMF financing of the budget deficit, but had secured other non-IMF contingency financing and planned to focus on greater domestic financing to reduce Indonesia's dependence on foreign creditors. SBY's appeal to the people of Indonesia "to face the future with a stronger posture, more self-confident, and to work even harder in reaching the common ideals" mirrored his own attitude in meeting the challenges of the next five years.

BUDGET PRIORITIES: NATIONAL ECONOMIC RECOVERY AND MAINTENANCE
OF THE PEOPLE'S WELFARE

14. (U) SBY outlined the five national development program agendas for the government's 2010 work plan: maintenance of the people's welfare; enhancement of human resources quality; reinforcement of bureaucratic and legal reforms and consolidation of democracy and national security; recovery of the economy sustained by agriculture, infrastructure and energy development; and improvement of the quality of natural resources management and the capacity of climate change mitigation. He noted the government and Parliament had agreed on basic macroeconomic assumptions for 2010, including targeting economic growth of about 5 percent, inflation of 5 percent, average rupiah:US dollar exchange rate of IDR 10,000/1 USD, average 3-month Bank Indonesia Certificate interest rate of 6.5 percent, an Indonesia crude oil price of USD 60/barrel, and a crude oil lifting target of 965,000 barrels/day.

15. (U) The government proposed a 2010 budget deficit equal to about 1.6 percent of GDP (IDR 98 trillion), considerably lower than the 2009 targeted budget deficit of 2.5 percent of GDP. Expenditures are projected to total IDR 1,009.5 trillion (up 0.4 percent over 2009), while revenue and grants are slated to reach IDR 911.5 trillion. Tax revenue is targeted to reach IDR 729.2 trillion and non-tax state revenue is targeted for IDR 180.9 trillion. The bill proposes that the central government budget be allocated IDR 699.7 trillion, while the budget allocated for transfer to the regions to support achievement of fiscal decentralization is slated to total IDR 309.8 trillion. SBY said the

JAKARTA 00001295 002 OF 003

government intended to continue to apply a financial stimulus package and countercyclical budget policy to maintain people's purchasing power, to safeguard the resiliency of the business sector, to create jobs and to absorb the impact of layoffs through development of labor-intensive infrastructure.

16. (U) President Yudhoyono said the government remained committed to providing a social security net for the poor and to maintaining food and energy security in the face of anticipated impacts of an El Nino weather pattern likely to cause drought in late 2009 and early 2010. By targeting IDR 37 trillion for maintenance of people's welfare and IDR 51.2 trillion to improving the quality of Indonesian's human resources, the government intends to lower the poverty rate from 14.15 percent currently to 12 to 13.5 percent and improve access to quality basic education for all children aged 7 to 15 years of age. President Yudhoyono also pledged to maintain an education budget equal to a minimum of 20 percent of the state budget.

17. (U) The government also proposed allocating IDR 18.1 trillion to support bureaucratic and legal reform and the consolidation of democracy and national security. These resources will target improving the performance of government bureaucracy, increasing legal certainty, reducing commission of criminal corrupt acts, improving effective implementation of civil society organizations and political parties, improving national security to sustain social and economic activities, and enhancing capacity of regional governments. IDR 61.2 trillion would support an economic recovery sustained by development of agriculture, infrastructure and energy. The government will work towards achieving economic growth of between 4 and 4.5 percent in 2009 and at least 5 percent in 2010, while maintaining macroeconomic stability as a prerequisite for sustainable economic development. To reach these targets, SBY said his government would create an improved investment climate, seek more balanced growth, increase the availability of appropriate and quality infrastructure and encourage public-private partnership to finance infrastructure investment.

¶18. (U) To enhance the quality of natural resources management and improve the capacity of climate change mitigation, the government proposes to allocate IDR 4.3 trillion. These funds would support rehabilitation and conservation of forests, the fight against illegal logging, sustainable mining practices and pollution control, and improved management of maritime resources.

. . .AND AN INCREASED DEFENSE BUDGET. . .

¶19. (U) Perhaps the most significant addition to the budget was the government's proposal for the Department of Defense to receive a budget allocation of IDR 40.7 trillion (up from IDR 33.6 trillion in 2009), with the 20 percent increase to provide additional funding for operation, maintenance and procurement of the Indonesian Armed Forces' main weaponry systems. The defense budget had become an issue during the presidential election campaign in the wake of a string of military aviation accidents which resulted in a significant number of fatalities. The proposed hike remains far below the Department of Defense's desired budget increase.

SUBSIDIES TO CONTINUE, BUT GOVERNMENT TO IMPROVE TARGETING

¶10. (U) President Yudhoyono advised that the budget allocation for subsidies (including food, fuel, electricity, fertilizer and seeds) in 2010 would reach IDR 144.4 trillion, constituting 14.3 percent of the budget (and down from projected subsidies of IDR 160 trillion in 2009). While he argued subsidies were still needed to alleviate the burdens on the most vulnerable segments of the population, particularly in the face of the current global economic crisis, he said the government would work to improve the targeting of such subsidies over the medium-term to ensure they are received by households which truly need them.

THE SPEAKER ADDRESSES JULY 17 BOMBINGS

¶11. (SBU) While President Yudhoyono did not raise the July 17 attacks in this budget speech, parliamentary speaker Agung Laksono addressed the issue in his opening remarks. Laksono strongly condemned the attacks, which he said had shaken Indonesia's image as a safe, peaceful, democratic country.

JAKARTA 00001295 003 OF 003

He called for the police to take quick action to capture those involved and called for Indonesians to unite to enhance vigilance against terrorism and groups acting in an irresponsible manner.

HUME